

THE UNITED STATES BANKRUPTCY COURT FOR THE  
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

In re

RECOVERY CENTERS OF KING COUNTY,  
Debtor-in-Possession.

Case No. 15-13060

SECOND AMENDED DISCLOSURE  
STATEMENT

Recovery Centers of King County (hereinafter "RCKC"), the Debtor, submits the following Second Amended Disclosure Statement pursuant to 11 U.S.C. § 1125:

**1. THE PURPOSE**

The purpose of this statement is to provide the holders of such claims and interest with adequate information respecting the Debtor and the Plan of Reorganization in order that they may make an informed judgment concerning the plan and vote their acceptance or rejection.

An acceptance or rejection of the plan may be voted by completing the ballot which accompanies the plan and mailing it to Wells and Jarvis, P.S., 502 Logan Building, 500 Union Street, Seattle, Washington 98101, in a postage-paid envelope. Ballots must be received by counsel for the Debtor by \_\_\_\_\_, 2015. The Debtor intends to seek confirmation of a plan as soon as practically possible. A hearing has been set for the \_\_\_\_ day of \_\_\_\_, 2015 at 9:30 am seeking confirmation of the plan.

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1  
2 In order for the plan to be accepted, the holder of two thirds (2/3) of the amount of the  
3 claims voting, and more than one-half (1/2) of the number of claims in Classes Two through  
4 Thirteen who vote, must have voted for acceptance of the plan. If sufficient acceptances are  
5 not received, the Debtor may elect to request confirmation of the plan under § 1129(b) of the  
6 Bankruptcy Code. Such a request could result in confirmation of the plan notwithstanding an  
7 objection to the plan by any creditors. If required, the plan may be modified at the time of the  
8 hearing on confirmation to permit approval under § 1129(b) of the Bankruptcy Code.

9 This disclosure statement is the only document authorized by the Debtor to be used in  
10 connection with solicitation of acceptance of its plan. NO REPRESENTATION  
11 CONCERNING THE DEBTOR (PARTICULARLY AS TO THE VALUE OF PROPERTIES,  
12 CREDITOR CLAIMS, OR FUTURE LIQUIDATION EFFORTS) IS AUTHORIZED BY  
13 THE DEBTORS OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY  
14 REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE,  
15 WHICH IS OTHER THAN CONTAINED HEREIN, SHOULD BE REPORTED TO  
16 DEBTOR'S ATTORNEY, JEFFREY B. WELLS, AND SHOULD NOT BE RELIED UPON  
17 BY YOU IN ARRIVING AT YOUR DECISION TO ACCEPT OR REJECT THIS PLAN.  
18

## 19 **2. EVENTS PRECEDING THE CHAPTER 11 FILING**

20 Recovery Centers of King County (RCKC) has been in the King County community  
21 for approximately 40 years serving those who experience substance use disorders. Over the  
22 years funding has come from a variety of agencies, governmental, community support and  
23 patient fees. RCKC's recent income, however, has made it impossible for RCKC to maintain  
24 the quality of care that its clients deserve. Therefore, the decision by the Board of Directors  
25 was made to cease clinical operations. Recovery Centers has acquired no new patients.  
26

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1  
2 In winding up operations, RCKC has successfully completed detox protocols with  
3 patients, found placement for all in-patient clients, and has transitioned all outpatient clients to  
4 other service agencies. The Chapter 11 was filed to ensure that the liquidation of RCKC's  
5 assets will be done in an appropriate and orderly fashion.

### 6 3. FINANCIAL INFORMATION

7 Attached as **Exhibit A** are recent financial statements of the Debtor. The principal  
8 tangible assets and liabilities of RCKC are set forth in the balance sheets. Exhibit A also  
9 includes the latest income and expense statement of RCKC. The exhibits were prepared by the  
10 Debtor.

11 All of Debtor's real estate is currently insured with Philadelphia Insurance Company.  
12 Debtor also has professional liability insurance coverage through August, 2015. Debtor will  
13 renew insurance coverage on all real estate until all real estate has been sold. In addition,  
14 Debtor will obtain tail professional liability insurance lasting until the statute of limitations has  
15 run on any potential claim, which such ending date is estimated to be April 2018. Existing  
16 insurance, which includes directors and officers liability coverage, will be continued through  
17 the tail period.

18  
19 Debtor has collected all of the \$82,000 account receivables set forth on Schedule B of  
20 the original filing, except for \$999, which is still outstanding, but which is expected to be  
21 collected. Outstanding receivables set forth on Exhibit A, attached hereto, are either from  
22 private patient bills or Title 19 Medicaid funding. Debtor does not expect that any of these  
23 account receivables are collectible.

24 Debtor has filed all tax returns as of the date of filing. The 2014 tax return, which is not  
25 yet due, will be prepared and filed prior to the due date.

Debtor has valued its real estate as follows:

Property Address	Value	Source
464 12 <sup>th</sup> Avenue, Seattle, WA 98122	\$4,100,000	Purchase and sale agreement
1701 18 <sup>th</sup> Avenue S., Seattle, WA 98144	\$3,857,000	2013 King County Tax Assessor
505 Washington Avenue S., Kent, WA 98032	\$1,933,600	2013 King County Tax Assessor

#### 4. DESCRIPTION OF PLAN

The claims to be dealt with under the Plan are classified as follows:

A. Class One. Class One consists of those parties holding administrative costs and expenses as defined by 11 U.S.C. 503(b). The members must have filed for this status and their claim allowed by the Court. The known members of this class and the amount of their claims are:

1. Jeffrey B. Wells (attorney for Debtor), estimated not to exceed \$25,000, owing at the time of confirmation.

2. Allan Friedman, broker. No fees will be due to Mr. Friedman until closing of each real estate parcel, at which point he will be entitled to a commission payment pursuant to the approved purchase and sale agreement and the initial application for employment.

3. Paul Bailey, accountant, estimated not to exceed \$7,500, owing at the time of confirmation.

4. Jeffrey Fairchild, special counsel for the state court wage lawsuit, estimated not to exceed \$5,000 owing at time of confirmation.

5. Robert Smith, special counsel for the Debtor, who had served as general counsel for the Debtor prior to the Chapter 11 filing.

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1  
2           6.       Gloria Nagler and Michael Sperry of Nagler Law Group, P.S. and any  
3 other professional hired by the unsecured creditors committee and approved by the court.

4           7.       Fees due the United States Trustee under 28 U.S.C. §1930(a)(6) of the  
5 Bankruptcy Code, estimated to be current.

6           B.       Class Two. Class Two consists of Bank of America, a secured creditor of  
7 Debtor. The claim is secured by a first lien deed of trust, including an assignment of rents,  
8 encumbering Debtor's real estate located at 464 – 12<sup>th</sup> Ave S, Seattle, WA, 1701 18<sup>th</sup> Ave S,  
9 Seattle, WA and 505 Washington Ave S., Kent, WA. Debtor's schedules indicate that  
10 \$4,730,883 was owed as of the filing date of May 15, 2015. With regard to the First Deed of  
11 Trust loan, the non-default interest rate is 5.519% per annum and payments are approximately  
12 \$45,381.73 per month and are not current under the promissory note evidencing the First Deed  
13 of Trust Loan.  
14

15           C.       Class Three. Class Three consists of CMS's claim arising from ownership of  
16 two credit card machines. Nothing is owing and Debtor will surrender said machines to CMS.  
17

18           D.       Class Four. Class Four consists of Pitney Bowes, secured by leases on three  
19 postage machines. Nothing is owing and Debtor will surrender said machines to Pitney Bowes.

20           E.       Class Five. Class Five consists of Wells Fargo Financial Leasing's claim of  
21 approximately \$1,553.00 as of the petition date according to Debtor's schedules. This claim is  
22 secured by a lease on three copiers and printers. The lease is a true lease and not a financing  
23 mechanism.  
24

25  
26  
27 SECOND AMENDED DISCLOSURE STATEMENT - 5

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1 F. Class Six. Class Six consists of Pacific Office Automation's claim of  
2 approximately \$3,165.23 as of the petition date according to Debtor's schedules. This claim is  
3 for a lease on copy machines.  
4

5 G. Class Seven. Class Seven consists of Ecolab's claim of approximately \$723.94  
6 as of the petition date according to Debtor's schedules. This claim is for a lease on a  
7 dishwasher.  
8

9 H. Class Eight. Class Eight consists of Cubex Financial Services claim of  
10 approximately \$958.61 as of the petition date according to Debtor's schedules. This claim is  
11 for a lease on a medical dispenser.  
12

13 I. Class Nine. Class Nine consists of Airgas USA, LLC's claim of approximately  
14 \$268.06 as of the petition date according to Debtor's schedules. This claim is for a lease of  
15 Oxygen equipment.  
16

17 J. Class Ten. Class Ten consists of NEC Financial Services' claim of  
18 approximately \$479.29 as of the petition date according to Debtor's schedules. This claim is  
19 for a leases on the phones.  
20

21 K. Class Eleven. Class Eleven consists of Guardian's life insurance, which was  
22 owed nothing at the time of filing according to Debtor's schedules. This claim is secured by  
23 term life insurance on Debtor's employees.  
24

25 L. Class Twelve. Class Twelve consists of priority wage claims each up to a  
26 maximum of \$11,725 by various employees, which is the subject of a King County Superior  
27 Court lawsuit. Debtor has listed these debts as contingent, unliquidated and disputed. Debtor  
has objected to these claims because they are based on an audit conducted by the Department

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of Labor, which the Debtor does not believe is accurate. Debtor believes all of the claims are also older than the 180 day limit set forth in 11 U.S.C. § 507(a)(4) in order for the claims to be a priority wage claim. Therefore, all wage claims will be treated as a Class Fifteen general unsecured debt for the purpose of voting on the plan and timing of payment. Debtor, despite its objections to the wage claims, proposes as part of its plan to pay each wage claim listed in full and without the necessity of each claimant filing a proof of claim.

Debtor has been made aware that there may be wage claimants, other than those listed as wage claimants on Debtor's schedules, of unknown identity with unknown amounts whose claims may or may not have priority status. The allowance of these yet to be determined claims by unknown claimants will be pursuant to a procedure yet to be determined by the bankruptcy court. What impact these unknown claimants have on the amount to be distributed to Class Fifteen, general unsecured debts, is unknown, but potentially such claims could result in general unsecured creditors receiving less than a 100% dividend on allowed claims.

M. Class Thirteen. Class Thirteen consists of King County Treasurer, who is owed 2015 real estate taxes on Debtor's real estate. Said taxes are nominal because Debtor is a non-profit agency entitled to reduced tax assessments. The taxes for 2015 for each of the parcels are as follows.

464 12 <sup>th</sup> Ave, Seattle, WA Tax Acct # 0508	1 <sup>st</sup> half \$372.07 2 <sup>nd</sup> half \$372.07
505 Washington Ave, Kent, WA Tax Acct #4706	1 <sup>st</sup> half \$741.90 2 <sup>nd</sup> half \$741.89
1701 18 <sup>th</sup> Ave S, Seattle, WA Tax Acct #4500	1 <sup>st</sup> half \$1,275.41 2 <sup>nd</sup> half \$1,275.41

1 N. Class Fourteen. Class Fourteen consists of the City of Seattle, Washington  
2 State Employment Security, and Washington State Department of Revenue. City of Seattle is  
3 owed a total of approximately \$2,000 in priority tax according to Debtor's schedules.  
4 Washington State Employment Security is owed a total of approximately \$41,080.17 in  
5 priority tax debt. Washington State Department of Revenue is owed a total of approximately  
6 \$1,750 in priority tax debt per its proof of claim.  
7

8 O. Class Fifteen. Class Fifteen consists of Debtor's general unsecured debt on its  
9 Schedule F of \$206,136.  
10

#### 11 CLASSES NOT IMPAIRED BY THE PLAN

12 Class One is unimpaired by the plan and will be paid from the funds generated by the  
13 sale of Debtor's real estate.  
14

#### 15 TREATMENT OF NON-IMPAIRED CLAIMS

16 All current fees due the United States Trustee under 28 U.S.C. §1930(a)(6) of the  
17 Bankruptcy Code shall be paid on or before the effective date from retained income. All other  
18 claims for costs and expenses of administration allowable under 11 U.S.C. §507(a)(1) shall be  
19 paid upon the approval of such claims by the Court from sale proceeds.  
20

#### 21 TREATMENT OF IMPAIRED CLAIMS

22 Debtor will sell its real estate located at 464 – 12<sup>th</sup> Ave S, Seattle, WA, 1701 18<sup>th</sup> Ave S,  
23 Seattle, WA and 505 Washington Ave S., Kent, WA. Each sale shall receive court approval.  
24

25 Sales by Debtor shall be within one year of the effective date of the Plan. If any of  
26 Debtor's real estate is not under a pending contract and scheduled to close within 90 days at the  
27

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1 one-year anniversary, then there shall be a status conference with the court, at which such time  
2 secured and unsecured creditors may move the court for necessary and appropriate relief to  
3 effect a liquidation of remaining real property if any. The unsecured creditors committee and  
4 secured creditor Bank of America suggest that a six-month marketing period should be  
5 sufficient to sell the properties. The Debtor disagrees because the real estate is commercial  
6 property, for which there will be, more likely than not, feasibility studies to be concluded before  
7 any closing.  
8

9       The majority of Debtor's personal property is of nominal value. Debtor will by separate  
10 motion seek court approval for sale and/or disposal of personal property. Debtor does not  
11 believe personal property will generate more than nominal amounts.  
12

13       Class Two secured creditor, Bank of America shall receive the Debtor's net sale  
14 proceeds from the sale of each parcel of real estate, less those sums reserved for payment of  
15 Class One creditors. The amount reserved for Class One creditors shall be the subject of a  
16 separate cash collateral order either by agreement between Bank of America and the Debtor or  
17 by order of the court after notice and a hearing for Debtor's use of cash collateral. Presently,  
18 Debtor anticipates requesting use of \$200,000 from the proceeds of the first property to be sold  
19 for payment of Class One creditors including ongoing winding up expenses by the Debtor. No  
20 default interest or late fees shall be payable to Bank of America, however, reasonable attorney  
21 fees and costs shall be included in the payoff to Bank of America. There may also be a  
22 prepayment penalty due Bank of America for early payoff of their loan.  
23  
24  
25  
26

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1 Class Three creditor, CMS shall receive their credit card machines back no later than  
2 upon confirmation, unless specifically retained pursuant to a separate court order. Any claims  
3 for money owed shall be treated as a Class Fifteen claim.  
4

5 Class Four creditor, Pitney Bowes shall receive their postage machines back no later  
6 than upon confirmation, unless specifically retained pursuant to a separate court order. Any  
7 claims for money owed shall be treated as a Class Fifteen claim.  
8

9 Class Five creditor, Wells Fargo Financial Leasing, shall receive their three copiers and  
10 printers back no later than upon confirmation, unless specifically retained pursuant to a  
11 separate court order. Any claims for money owed shall be treated as a Class Fifteen claim.  
12

13 Classes Six through Ten creditors shall receive their equipment back no later than upon  
14 confirmation, unless specifically retained pursuant to a separate court order. Any claims for  
15 money owed shall be treated as a Class Fifteen claim.  
16

17 Class Eleven creditor Guardian shall receive upon confirmation and thereafter any  
18 funds due it on the employee group term life insurance until the last employment comes to an  
19 end.  
20

21 Classes Thirteen, Fourteen and Fifteen shall be paid from the real estate sale proceeds.  
22 Class Thirteen shall be paid the real estate tax then owing on each parcel as they are sold  
23 directly from escrow. Only after Class Fourteen is paid in full will sale proceeds be distributed  
24 to Classes Twelve and Fifteen. Partial payments to Classes Twelve and Fifteen shall be on a  
25 pro rata basis.  
26

27 Other than the potential diminution of dividend to Classes Twelve and Fifteen  
claimholders by the allowance of wage claims from former employees, Debtor anticipates that

1 Classes Twelve and Fifteen will be paid in full and in such event such claims shall receive  
2 interest at the federal rate of .27% from the filing date of May 15, 2015.  
3

#### 4 **5. TREATMENT OF INTEREST**

5 The Debtor-in-Possession will retain all property at confirmation and will continue to  
6 wind up its affairs including court approved disposition of medical records. Upon full payment  
7 of all claims, Classes One through Fifteen and final sale of its real estate assets, Debtor shall  
8 apply to the court for an order approving of the disbursement of the remaining funds to an  
9 entity which is committed to pursuing the same goals and providing the same service as the  
10 Debtor when it was operating.  
11

#### 12 **6. TAX CONSEQUENCES**

13 Any capital gains tax from the sale of Debtor's real estate and any other taxes  
14 generated during the Chapter 11 proceeding will be paid in full before any transfer of surplus  
15 fund to another agency.  
16

#### 17 **7. PENDING LITIGATION AND CLAIMS**

18 The current litigation involving alleged amounts owed to former employees for unpaid  
19 overtime in King County Superior Court under cause number 14-2-32248-8 will remain stayed  
20 pursuant to 11 U.S.C. § 362. The court has set a bar date of July 27, 2015 for all plaintiffs in that  
21 suit and all other creditors to file claims if they are seeking compensation. Debtor will review  
22 those claims and will file objections to those claims as appropriate. The court will allow or  
23 disallow the objected claims pursuant the claims procedure set forth in Bankruptcy Rule 3007.

24 RCKC believes the claims process will obviate the need for any future proceedings in  
25 the King County Superior Court or the administrative proceedings opened by the United States  
26

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1 Department of Labor, Wage and Hourly Division. Even though Debtor disputes the claims set  
2 forth in Class Twelve, Debtor will pay the amounts listed on Schedule E, even if no claim is  
3 filed. For all wage claims not listed on Schedule E, claimants must file a proof of claim on or  
4 before the bar date of July 27, 2015 in order to be paid.  
5

6 The Debtor shall review all claims with the assistance of special counsel Jeff Fairchild  
7 and will file any objections to the allowance of such claims within sixty (60) days after the  
8 claims bar date.  
9

10 Debtor will file motions to reject leases Classes Three, Four, Five, Six, Seven, Eight,  
11 Nine and Ten. Said motion to reject leases may include retention of some equipment necessary  
12 for Debtor to effectively wind down its business, such as a reduced and limited number of  
13 telephone, copiers, postage meters and printers. The monthly expense associated with the  
14 retained equipment is estimated to be \$1,000 per month. The actual cost of retaining such  
15 equipment will be set forth in Debtor's motion to reject leases and retain certain equipment.  
16

## 17 **8. LIQUIDATION ANALYSIS**

18 Debtor will sell its three buildings located at 464 12<sup>th</sup> Ave, Seattle, WA 98122, 505  
19 Washington Ave So, Kent, WA 98032 and 1701 18<sup>th</sup> Ave So, Seattle, WA 98144. All sales  
20 shall be pursuant to a court order. RCKC expects the gross sale proceeds to be approximately  
21 \$9,890,600. As a result, RCKC expects that all claims, both secured and unsecured, will be paid  
22 in full. RCKC also expects that with a confirmed plan, RCKC will maximize the funds  
23 available to pay creditors as a result of being able to take advantage of the real estate excise tax  
24 waiver pursuant to 11 U.S.C. § 1146(a).  
25

## 26 **9. MANAGEMENT**

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The Chapter 11 plan was filed by RCKC to provide for an orderly windup of its affairs and an orderly liquidation. While the current board of directors and executive director Carole Hayes shall continue to guide RCKC's affairs during the Chapter 11 proceeding until the plan is completed. All steps in liquidation of Debtor's assets for the benefit of creditors will be pursuant to court approval.

## 10. STATUS OF CASE

This Chapter 11 Plan was filed by Debtor in order to promote the cost efficient liquidation of its assets and pay its creditors.

RESPECTFULLY SUBMITTED this 22<sup>nd</sup> day of June, 2015.

/s/ James Nickerson  
James Nickerson, President  
Recovery Centers of King County